

inBrief



Free Zones in the UAE – an overview

By James Bowden and Thomas Gallagher | 15 January 2015

Strategically located between Europe, Africa and Asia, the United Arab Emirates (the “UAE”) has become a hub for trade and commerce throughout the world. In order to further encourage foreign investment, more than 20 free zones have been established across Dubai and focus on a wide range of business sectors, ranging from manufacturing to technology. Free zones offer a number of advantages to foreign businesses, including zero taxation, repatriation of profits and 100% foreign ownership. It is important to note that each free zone has its own bureaucracy along with unique regulations and costs. We are often asked by our clients which free zone they should incorporate in, and the following provides a brief overview of several free zones located in Dubai, and identifies a number of factors a potential investor may wish to consider when making their choice. The factors that drive the selection of a free zone tend to relate to the nature of the business to be carried on, cost of formation, administrative ease or difficulty, and location.

Established in 1985, Jebel Ali (“JAFZA”) is the oldest free zone in the UAE. JAFZA has one of the world’s largest shipping container ports, and is home to many industrial and trading companies utilizing the port. JAFZA recently revised its capital requirements for onshore companies and instead of requiring minimum capital deposits ranging from AED 500,000 – AED 1,000,000, JAFZA will determine the required capital on a case-by-case basis. Generally the minimum capital requirement is equal to the first year operating expenses as estimated by the JAFZA sales team. Office space is required for the formation of an onshore company and the lease or purchase thereof is often one of the largest expenses associated with the establishment of the company. JAFZA is currently in the process of opening a new business complex named JAFZA One, which will provide companies seeking to incorporate in JAFZA with so-called “virtual office” options, which are far more affordable.

JAFZA also allows for the formation of offshore companies, which have no physical presence in the UAE and accordingly do not lease space, but instead require the appointment of a Registered Agent. A Registered Agent provides a mailing address for service in the UAE and may also provide minimal administrative functions for the offshore company, and has no ownership or management interest.

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The minimum capital requirement for offshore companies is AED 1 and only one class of shares is permitted. Offshore companies can open current accounts with certain banks in the UAE, but cannot carry on active businesses and as such cannot sponsor UAE residency visas. JAFZA offshore companies are typically used by non-nationals as holding companies.

The Dubai International Financial Centre (the “DIFC”) is a financial services free zone based on common law principles. Established in Dubai’s financial district in 2004, the DIFC was created to attract international financial firms with the objective of elevating Dubai’s position as a global hub with access to the emerging markets of the Middle East, Africa and South Asia.

Formation, licensing and other fees are generally higher in the DIFC but it provides a level of regulation and international credibility not found in other free zones. The Dubai Financial Services Authority (the “DFSA”) regulates financial services companies to a standard comparable to western financial regulators, and all DIFC entities are subject to privacy and data protection regulations in line with international standards. The DIFC also offers its own judicial system based on common law, and apart from hearing matters specifically related to DIFC companies, the DIFC Courts can also hear civil or commercial actions from outside the DIFC (including outside the UAE) if the parties have contractually agreed. Given the relatively high cost and administrative effort of establishing a DIFC entity, this free zone is generally chosen for specific business purposes rather than simply achieving 100 percent foreign ownership. Dubai Silicon Oasis (“DSO”) is a free zone focusing on technology-based industries, with specific incentives aimed at entrepreneurs and start-ups. While being located outside of the city centre, DSO provides access to a strong network of technology-focused venture capitalists as well as providing incubation inducements. Formation and licensing fees are competitive at DSO and office space is required with a minimum annual rent of AED 85,000.

The Dubai Airport Free Zone (“DAFZA”) offers a strategic advantage to freight and logistics companies as it is attached to Terminal 2 of the Dubai International Airport. DAFZA offers a variety of options for space, ranging from part-time desks to insulated industrial units. Formation and licensing fees are slightly higher than other free zones, but the required minimum share capital is competitive at AED 1,000. DAFZA’s administration is relatively easy to deal with.

Dubai Multi-Commodities Centre (“DMCC”) was created in 2002 to enhance commodity trade flow through the emirate. Dubai is among the top three trading hubs in the world for gold, tea and diamonds. DMCC is popular in part because it is centrally located in a popular district of Dubai with relatively attractive office premises available. DMCC is an attractive free zone for numerous industries in addition to commodities traders, including recruitment, information technology and advertising. Formation, licensing and office rental fees are higher than average, owing to DMCC’s desirable location.

Dubai World Central (“DWC”) is one of the newest free zones in the UAE and formation and licensing fees are competitive. Located between JAFZA and Al Maktoum International Airport (removed from the conventional Dubai city limits), DWC focuses on the aviation industry, including related logistics, commercial and residential projects and light industry in general, although other business categories are welcome as well. It is too soon to tell whether DWC will be a popular free zone, as it is undergoing constant administrative change and unpredictability of service while it matures.

Free zones are not unique to Dubai, and other emirates including Abu Dhabi, Ras Al Khaimah and Sharjah offer attractive options for foreign businesses. These free zones offer some competitive advantages compared to Dubai’s free zones, such as lower licensing fees and office rental costs. It should be noted that setting up a company in these emirates can create logistical hurdles. A company registered in a free zone outside of Dubai cannot lease space, sponsor Dubai visas or operate in Dubai. When the primary purpose of incorporation is attaining a UAE residency visa, forming a company in these free zones may be the most expeditious option.

While the UAE’s free zones offer many attractive features for investors, it is important to be aware that free zone companies are not permitted to carry on business outside of the physical boundaries of the relevant free zone. For businesses that intend to service or supply the Dubai market, a free zone company may not be an appropriate vehicle depending on the nature of the business, so it is critical to consider this carefully prior to incorporation. ■

Afridi & Angell

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